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SUBJECT: NORWAY AND SOVEREIGN WEALTH FUNDS

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Sensitive but unclassified--please protect accordingly.

¶1. (SBU) Summary. In a November 5 briefing to the diplomatic corps, the Ministry of Finance DG reviewed Norway's approach to Sovereign Wealth Funds and the status of Norway's approximately \$350 million Global Fund (formerly known as the Pension Fund). He said that Norway's application of the Ethical Guidelines, which has heavily impacted US companies, is not ideal and an upcoming evaluation may help improve them. The DG also explained that Norway is considering possible divestments from companies building pipelines in Burma. Finally, he noted the possibility of positive investments in companies promoting the public good. End Summary.

#### Overview of the Fund

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¶2. (SBU) Martin Shanke, DG at the Ministry of Finance, explained that petroleum drives the Norwegian economy. It accounts for 25% of GDP, 38% of government revenue, 24% of investment and 51% of exports. With the growing shift from oil to gas, the Norwegian economy will depend more on a smaller set of clients.

¶3. (SBU) The money that the GON has made from petroleum has been, since 1990s, invested in a fund which is fully integrated in the state budget. The revenues come into the government and then are shifted to the Global Fund. The Fund in turn invests the money abroad and transfers to the state budget the amount needed to cover the non-oil budget deficit. A fiscal policy guideline provides that over time, the Fund should not transfer to the state more than the expected real return of the Fund, estimated at 4%.

¶4. (SBU) At present, the Fund invests 60% in equities and 40% in fixed income assets. Within each category, there is a fixed allocation of how much goes to each geographic area based on the capitization values of each area. 35% is invested in the Americas (and Africa). Overall, the Fund invests in about 7,000 companies worldwide. The Fund is the largest single investor in Europe.

¶5. (SBU) Shanke explained that the Fund is looking at beginning real estate investments and will present a proposal to the Parliament on this in the Spring. If the decision is made to move forward with these investments, money in fixed asset investments will be drawn down.

#### Ethical Guidelines

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¶6. (SBU) Moving to the Ethical Guidelines which have been a source of controversy, Shanke said that the Fund has a negative screening process as well as an ad hoc review

process. The negative screening is designed to weed out companies who handle "weapons that through their normal use may violate fundamental humanitarian principles" which he identified as weapons such a cluster munitions or nuclear weapons. (Note: it is as a result of this screening that Norway divested from several American arms manufacturing companies.)

¶17. (SBU) An Ad-hoc exclusion is made when a company is considered to have "serious violations of fundamental ethical norms." (Note: Walmart was excluded under this provision.) Shanke claimed that exclusions only happen after the Ethical Council tries and fails to get the company to change its practices. The Council then recommends exclusion to the Ministry. The Ministry then asks the Central Bank (the technical owner of the shares) whether the company is likely to be amenable to dialogue. If the Central Bank says no, the Ministry orders divestment. (Comment: In the Walmart case, we don't recall the Central Bank's effort to mediate with Walmart. This may indicate that the Central Bank said any effort would be fruitless. Alternatively, perhaps this process was not followed. End Comment.) To date, the Fund has excluded 21 companies, 12 of them are American.

¶18. (SBU) In response to a question from Emboff which suggested that companies that operate transparently and in open economies may be discriminated against, Shanke agreed that that could happen and that the process is second-best. In the 1990s, his Ministry had argued against an ethical screen because of this problem. Today, with more information available, he thought the system was good enough. He pointed out that an evaluation of the whole process in 2008 may lead to fine-tuning. He welcomed engagement with others on this issue. Finally, he noted that more transparent companies are often easier to engage and so it is more likely that the Central Bank would evaluate them as amenable to negotiations-something which might offset the initial discrimination.

#### Investments in Burma

¶19. (SBU) Turning to the growing domestic political pressure for the Fund to divest from companies doing business in Burma, Shanke explained that the Ethics Council has determined that if companies build large gas pipelines in Burma they will likely be involved with the Burmese Armed Forces and thus probably undermine human rights. Thus, if a company builds a pipeline in Burma, the stage is set for possible divestiture from that company. The companies at risk include Total, Daewoo and PetroChina.

#### Positive Screens?

¶10. (SBU) Finally, Shanke explained that there is growing interest in positive screens whereby the Fund picks out special areas in which to invest based on ethical considerations. One area under discussion is investments in environmental technology.

#### Norway Welcomes Sovereign Fund Discussions

¶11. (SBU) Shanke said Norway welcomed dialogue on Sovereign Wealth Funds and looked forward to international discussions which would help shape rules for the funds in general as well as perhaps share best practices on ethical guidelines. He provided a position paper on Sovereign Wealth Funds which is being emailed to the desk along with his powerpoint presentation.

JOHNSON